

A Vietnam Perspective on Taiwan's New Southbound Policy

By Tu Lai

In an effort to promote Taiwan's engagement with Southeast Asia and other Southern countries in the Indo-Pacific, President Tsai Ing-wen declared the New Southbound Policy at the very beginning of her presidency. Vietnam, though not having official relations with Taiwan, appears to endorse the New Southbound Policy and Taipei's positioning of Vietnam at the heart of the policy. Given that context, the implementation of the New Southbound Policy will have impacts on Vietnam's overall relations with Taiwan.

Tu Lai, Research Fellow at the Institute for Foreign Policy and Strategic Studies, the Diplomatic Academy of Vietnam, explains that "China is currently Vietnam's largest trading partner and import market... As a result, it is not an easy task for Vietnam and Taiwan to progress with a beneficial economic relationship while not antagonizing China."

The "southbound policy," originally coined as the "Go South" policy, is not a new concept designed by Tsai herself. Lee Teng-hui and Chen Shui-bian were the first Taiwan's leaders to launch an economic policy that sought to boost Taiwan's investment in Southeast Asia in the late 1990s - early 2000s. This period saw a dramatic increase in Taiwan's FDI flow to Southeast Asia that marked a new milestone in the island's trade and investment relations with the region and Vietnam. Nonetheless, Kuomintang's Ma Ying-jeou, after taking office, undertook a rapprochement policy with China on the basis of the "1992 consensus" to improve economic ties with mainland China. To depart from Ma's closer-to-China policy, President Tsai Ing-wen has taken concrete steps to implement her own New Southbound Policy.

First, a key pillar of the New Southbound Policy is to reinvigorate Taiwan's stagnated economy by enhancing Taiwan's economic and trade relations, science and technology collaboration, and cultural exchanges with Southeast Asian countries, including Vietnam. In the Indo-Pacific, ASEAN has gradually become a regional economic powerhouse. According to the 2018 KPMG Business Guide, ASEAN is now the third largest economy in Asia with a diverse economy, young workforce, and greater economic integration. Trade and investment relations between Taiwan and ASEAN have always been an outstanding achievement. After Tsai's inauguration, Taiwan's exports to ASEAN increased by 14.2% in 2017, and investment rose by 73.3% in 2016 from the previous years. In addition, the number of ASEAN students studying in Taiwan ranks second after China while the number of tourists from Southeast Asia rose by 29% in 2017 from the previous year as a result of the relaxation on visa policy for ASEAN nationals.

Second, another principal aspect of this policy is aimed at bringing an end to the over-reliance on China's market. China, after more than 30 years of constant and high economic growth, has started to exhibit its own developmental problems. Furthermore, against the backdrop of growing strategic competition between the United States and China, Taiwan needs a risk diffusion strategy. In other words, amid the escalating trade war between the two giants, China is now on the more disadvantageous and defensive side of the battle. It would be unwise for Taiwan to put all of its eggs in China's basket, not to mention the domestic political challenges in Taiwan associated with dependence on China. China's other Northeast Asian neighbors — South Korea and Japan — have begun to apply the same strategy to divert their flows of investment out of mainland China given the deepening strategic divergence in Sino-U.S. relations. In this scenario, all roads lead in one direction: Southeast

Asia. The earlier Taiwan's companies get themselves prepared in the new markets, the more advantages they gain over other foreign business competitors.

Third, what noticeably distinguishes Tsai's version of the southbound policy from her predecessors' is the strategic connotation that the president breathed into it. Taipei's strategy to use money and development assistance to buy support and recognition may no longer succeed since its international engagement has been suffocated by China. Only 15 nations officially recognize Taiwan. Most of them are under-developed or developing countries in Africa, Latin America, and Oceania. Therefore, Tsai will seek to deepen its presence in and engagement with South and Southeast Asia, which have had historically bittersweet relations with China. "The New Southbound Policy is our new 'Regional Strategy for Asia' which is aimed at deepening and broadening our presence in South and Southeast Asia," said Tsai at the 2017 Yushan Forum.

Since Taiwan is shifting its focus to Southeast Asia, Vietnam's policy makers must answer the question of how to reap the benefit of the wave of investment by Taiwan's businesses while preserving a balanced relationship with China.

Some argue that Vietnam will benefit from Taiwan's huge flow of investment in industries such as agriculture, healthcare, green energy, startup and technology innovation, information technology, textile and garments, among others. For investors from Taiwan, Vietnam has long been an attractive destination by virtue of the country's so-called "golden age" population, cheap labor force, and low manufacturing and infrastructure costs. Taiwan's businesses may find more opportunities in emerging markets like Vietnam and other Southeast Asian countries than in developed economies.

However, the failure of the Taiwanese conglomerate Formosa Plastics Group due to an environmental disaster in 2016 was a wake-up call for the government of Vietnam and Taiwanese companies doing business in Vietnam. Additionally, as the business environment in Vietnam is changing remarkably, higher ease of doing business but shrinking comparative advantages of cheap labor and low operational costs, Taiwan's investors moving to Vietnam under the framework of the New Southbound Policy may run into more challenges.

Furthermore, even though Vietnam and China have territorial disputes in the South China Sea, Sino-Vietnam relations are relatively stable. China is currently Vietnam's largest trading partner and import market. Earlier this year, in a meeting with his Chinese counterpart, Vietnam's Prime Minister declared that Vietnam would support the Belt and Road Initiative. As a result, it is not an easy task for Vietnam and Taiwan to progress with a beneficial economic relationship while not antagonizing China.

The New Southbound Policy will bring both opportunities and challenges for Vietnam and Taiwan. How far both Hanoi and Taipei want to go down the road will depend largely on the resilience of Vietnam's policy and the determination of the Tsai administration to move away from China and Beijing's political pressure in a dynamic and changing region.

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